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SUBJECT: AMBASSADOR'S MEETINGS WITH STATE BANK, FINANCE ON CAPITAL CONTROLS

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¶1. (SBU) Summary: When asked about GVN thinking on ways to address overheating in securities markets by the Ambassador during separate meetings on May 17 and 18, the State Bank Governor and the Finance Minister showed no hesitation in embracing the market approach (but did not explicitly rule out administrative controls) for dealing with the challenges of Vietnam's volatile stock market. Both officials cited deficiencies in oversight and monitoring mechanisms and seemed receptive to assistance in these areas. This message reports the content of the Ambassador's separate meetings on capital controls, which also covered other topics, and should be read in conjunction with reftel. End Summary.

¶2. (SBU) In his opening remarks, the Ambassador referred to rumors earlier in the year that Vietnam was considering the imposition of capital controls to help deal with the overheating of the stock market. He commended Vietnam for not imposing such controls. The Ambassador welcomed the monetary authorities' market-friendly approach, emphasizing that free flow of goods and capital is essential to economic success. He cautioned against future consideration of capital controls, citing experience in other countries, where the cost of controls outweigh any benefit.

¶3. (SBU) Looking ahead, the Ambassador hoped listing state-owned enterprises (SOE) on public exchanges would deepen capital markets and address robust demand for securities. He urged early consideration of enhanced oversight of the banking and securities sectors, improved information and disclosure mechanisms for the benefit of investors, and public trading of shares on regulated exchanges. To conclude his presentation, the Ambassador stressed the importance of policy-makers from both sides staying in touch on these issues.

¶4. (SBU) State Bank Governor Le Duc Thuy responded by condensing the GVN's choices for taming the overheated market to two options: should the GVN take administrative measures or economic measures? Continuing, he recalled that the GVN had received a wide range of recommendations. In the end, the government opted not to impose capital controls and so far, the results have been good. Governor Thuy said the authorities continue to monitor capital inflows and are working with the commercial banks and the equities markets in exercising risk management. He observed that "the market boom took us by surprise," adding that the SBV is open to assistance in managing this phenomenon. His specific plea for assistance was a request for help in managing venture funds and hedge funds.

Finally, the Governor left open the possibility of further countermeasures.

¶5. (SBU) Finance Minister Vu Van Ninh's response to the Ambassador's admonition against capital controls generally tracked that of the State Bank Governor. Ninh labeled capital markets a "big issue" and described the Ministry's interest in terms of protecting individual investors and promoting economic development and risk management. The Minister stressed that there are no plans for administrative measures, repeating several times the virtues of a market-oriented response. The Minister lamented that the GVN's monitoring function was dispersed. He cited the stock market as needing improved supervision and more transparency; there should be greater oversight of the securities industry, banking and insurance. The Minister suggested that a higher-level monitoring body was needed.

¶6. (SBU) Comment: The GVN monetary authorities are pleased with the results to date of not imposing capital controls. They readily acknowledge, however, their monitoring and oversight functions - and perhaps policy coordination - need to be enhanced. This is an area that is ripe for further U.S. assistance. End comment.

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